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Via Facsimile & U.S. Mail

June 28, 2006

Karl Fingerhood
U.S. Department of Justice
Environmental Enforcement Section
U.S. Department of Justice
ENRD Mailroom, Room 2121
601 D. Street, N.W.
Washington, D.C. 20044-7611

Tali Jolish
Environmental Protection Agency
75 Hawthorne Street
San Francisco, CA 94105

Re: United States V. Powerine Oil Company et al.
Civil No. CV-04-6435 PA(JWJX) USDC C.D. Cal.

Dear Karl and Tali:

This letter is written in response to the settlement discussions we had on June 7, 2006.

During our last conference call, the United States requested back up documentation for some of the costs in Powerine's estimate of environmental liabilities. Charts explaining the basis for the monthly overhead figures are enclosed (Attachment 1). In addition, the United States requested an explanation of the costs for addressing offsite pipelines. The estimate in our chart was \$10 million to \$20 million. This figure is at the low end of the likely liability range. Enclosed, as Attachment 2, is an estimate prepared on behalf of Powerine in 1995 which estimated the cost to abandon the pipelines as approximately \$20 million. This did not include costs to address environmental contamination which might be found during abandonment. Such costs could add several million dollars to this total and today's removal costs are likely to be higher. At the same time, Powerine may be able to abandon some lines in place which would result in a lower total cost. Powerine believes that the range it established, \$10 million to \$20 million, is reasonable given what is presently known. Powerine also estimated that it will cost between \$1 million and \$5 million to deal with the Huntington Pipeline. The estimate upon which this figure is based is provided as Attachment 3.¹

¹ You also requested information about the Baldwinsville terminal. I am not sure what type of documentation you want. We can provide you with a draft purchase and sale agreement pursuant to which we were willing to sell the facility for \$1. We will also get you a verification of our responses but I have been unable to do so because Vince has been traveling.



Karl Fingerhood
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We continue to be concerned by the refusal of the United States to provide us with the insurance information it has reportedly discovered. This continues to make it difficult to assess the value of the finding and to pursue such coverage.

With regard to EPA's offer, the \$3.2 million figure proposed by the United States is not reasonable. The United States is well aware that Powerine went through bankruptcy proceedings in the mid-1980s and that it had significant financial problems throughout the period in which the United States was seeking funds to address contamination at the WDI Site. As a result, in the late 1990s, the United States agreed that a settlement in the range of \$250,000 to \$500,000, not the \$3.2 million currently sought, was reasonable. Powerine has amply demonstrated, that it does not have sufficient resources to pay the United States the \$3.2 million which it seeks. Powerine does not have any significant cash and needs all of the cash which it hopes to generate from equipment sales, land sales and insurance to address the numerous environmental problems associated with its operations.

Moreover, the \$3.2 million figure is highly excessive given the significant litigation risks faced by the United States. First, as Powerine has repeatedly informed the United States, these claims were discharged as a result of Powerine's bankruptcy proceedings in the mid-1980s. We have re-evaluated the bankruptcy claim and believe that it is very strong. Therefore, Powerine is moving forward to seek relief from the Bankruptcy Court. Second, the United States itself recently noted in its Memorandum in Support of Motion to Enter Consent Decree in the Holbrook Trust matter, "EPA's investigations of the Site and the relative shares of settling parties were hampered by the dearth of documentary evidence available regarding the WDI Site in general, and the historical operation of WDI as a disposal site in particular." The United States has produced little, if any, admissible evidence that Powerine disposed of any CERCLA hazardous substances at the WDI Site. Given the fact that any such disposals allegedly occurred over forty years ago, the dearth of documentary evidence, and the fact that many potential witnesses have likely passed away, finding admissible evidence of Powerine's alleged liability will be extremely difficult. Third, it appears that much of the alleged evidence regarding disposals relates to disposal activities by the Rothschilds, not Powerine. In sum, Powerine has significant defenses which are not taken into account in EPA's offer.

Powerine continues to be interested in putting this and all of the other pending EPA matters to rest. However, in light of its current financial position and the fact that it believes it has an excellent chance of prevailing on its defenses, it is not willing to significantly increase its prior \$1 million offer. However, because it appears from our negotiations that the United States would prefer a cash payment in lieu of a future share of the insurance proceeds, Powerine is willing to offer an additional \$200,000 to be paid within 60 days after the initial \$1 million payment is made. That is, Powerine is willing to pay a total of \$1.2 million - \$1 million within 90 days after the District Court approves a consent decree and an additional \$200,000 within sixty days thereafter, in exchange for releases for Powerine and the Rothschild's for the WDI, OII and Casmalia disposal sites.² Given its financial condition and what it perceives to be a strong litigation position,

² We understand that Powerine's exposure at Casmalia is in the range of \$70,000.



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particularly with regard to the bankruptcy discharge, Powerine does not foresee being in a position to offer more than this amount in settlement.³

We are willing to discuss this proposal with you at your earliest convenience. Please feel free to call if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to be 'A. Cohen', written over a horizontal line.

Albert M. Cohen
of Loeb & Loeb LLP

AMC:ee
07152010002
LA1552168.1

cc: Vincent J. Papa
Michael Egner
Dave Isola

³ Powerine would also require copies of the securities as part of any resolution.

ATTACHMENT 1

Lakeland Development Company

Overhead Projection

	Amount	Description
Salary & Benefits	\$ 200,000	Payroll & taxes, medical, dental, vision & life insurance, workers compensation- 19 employees*
Utilities	10,000	Electricity, gas, water and nitrogen (equip. preservation) costs
Site Maintenance	20,000	Equip. rental, contractors, maintenance services, materials, supplies & auto related costs
G & A	50,000	Legal, liability insurance, pollution insurance, auto insurance, travel costs, telephone, office supplies, bank fees, courier costs
Monthly Estimate	<u>\$ 280,000</u>	

***Employees**

CEO

Controller-VP

Accounting Manager

Accounting Supervisor

Engineer Pipeline-offsite & onsite pipeline monitoring, engineering project manager

Groundkeeper/Maintenance-required by city to maintain perimeter landscape weed control & janitorial duties

Groundkeeper/Maintenance-required by city to maintain perimeter landscape weed control & janitorial duties

Guard-security for 55 acre site as mandated by city & fire dept. because of potential risk associated with

Guard (cont.) hydrocarbons & chemicals at the site.

Guard " " " " "

Guard " " " " "

Manager Refinery/Executive VP-equipment sales, operations

Marketing Executive

Marketing-VP: wastewater & biodiesel marketing

Secretary Executive

Shift Coordinator Refinery

Sr. Environmental Engineer-permits, water board monitoring & future remediation planning.

Superintendent Operations-managed contractors for equipment removal

Supervisor Warehouse-equipment spare parts control & maintenance of operations equipment

Lakeland Development Company
Overhead Projection

	Amount
Payroll & Taxes	\$ 172,000 *
Medical, Dental & Vision Insurance	20,000
Life Insurance	3,000
Worker's Comp. Insurance	5,000
Monthly Estimate of Salary Expense	<u>\$ 200,000</u>

Detail Payroll & Taxes:

Employee Gross Pay	\$ 110,000
Employer Taxes	40,000
Contract services	22,000
Total Detail Payroll & Taxes	<u>\$ 172,000</u>

Lakeland Development Company
Overhead Projection

UTILITIES & CHEMICALS:	Amount
Electricity	\$ 4,400
Gas	1,000
Water	1,300
Nitrogen	3,300
Monthly Estimate of Utilities	<u><u>\$ 10,000</u></u>

Lakeland Development Company
Overhead Projection

SITE MAINTENANCE	<u>Amount</u>
Equipment Rental	\$ 1,500
Contractors	8,800
Services	4,000
Materials & Supplies	3,000
Auto related (includes fuel usage)	2,700
Monthly Estimate of Site Maintenance	<u><u>\$ 20,000</u></u>

Lakeland Development Company
Overhead Projection

GENERAL & ADMINISTRATIVE	Amount
Legal	\$ 20,000
Insurance-Liability & Property	14,200
Travel & Other	3,300
Telephone	2,100
General Expenses	7,400
Consultants or Temps	600
Environmental (permits, fees etc.)	2,400
Monthly Estimate of G & A	<u>\$ 50,000</u>

06/28/2006 17:29 FAX 310 282 2200

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ATTACHMENT 2

JUN. 19. 2006 11:07AM

MAIN OFFICE 5629038911

NO. 156 P. 10

POWERINE Oil Company

DATE: May 9, 1995

TO: Al Gualtieri

FROM: Mike Abbasfard

SUBJECT: POWERINE PIPELINE ABANDONMENT SCENARIO AND LIABILITIES

Powerine owns and operates a total of five (5) pipelines, three (3) of the pipelines are in crude oil service and two (2) are in clean product service. One of the crude pipelines referred to as Number One (#1) Pipeline has been out of service since August of 1991, and only the upper one mile section of this pipeline is still being utilized. The #1 Pipeline was categorized as a high risk pipeline by the State Fire Marshal due to the large number of leaks experienced during operation of the pipeline. The State Fire Marshal has jurisdiction over the pipeline operation and maintenance and had mandated requirements of Powerine prior to recommissioning the line. Powerine decided not to operate the pipeline in 1991 due to the high cost of the required repairs and pipeline replacements mandated. Powerine's proprietary pipelines total approximately 67 miles. Approximately 50 percent of the pipelines are active and used at the present time and the rest are out of service.

Powerine pipelines cross numerous cities and each city has different requirements for underground pipeline abandonment. The City of Norwalk, in which approximately 20 miles of Powerine's active and inactive pipelines are located, requires the pipeline operator to remove the pipeline if it is to be abandoned. The City of Long Beach, in which approximately 20 miles of Powerine's pipeline are located will allow the pipeline operator to abandon the pipeline in place. However based on the age and leak history of the pipeline, Long Beach will require random soil sampling in the areas where the pipeline is located. If the soil analyses indicate soil contamination, then it has to be remediated in accordance with regulatory requirements. The City of Santa Fe Springs, in which we have approximately 8 1/2 miles of pipeline, will allow the pipeline operator to abandon in place at a fee which is equal to one half of the cost of pipeline removal.

Due to the different requirements of each city that the pipeline traverses, it is very difficult to determine an accurate cost of abandoning Powerine's pipelines. Our estimate for decommissioning the pipelines assumes that other cities requirements will be less stringent than Norwalk's removal mandate. However additional requirements for soil sampling and possible remediation of any contamination will be required. Following is a rough order of magnitude cost for the pipeline abandonment:

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NO. 156 P. 11

The estimated cost to remove the pipeline in the City of Norwalk is 11 million dollars. Some of the pipelines in Norwalk share a common trench which make pipeline removal less costly. The fee to abandon the pipeline in the City of Santa Fe Springs is 6.5 million dollars. Contamination remediation costs are unknown.

It is likely that the balance of the cities will allow abandonment of the pipelines in place. However the fee or requirements of these cities are unknown at this time.

Powerline Oil Company Estimated Pipeline Abandonment Costs

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NO. 156 P. 12

Pipeline	Miles	Size	Total Cost	Net Cost	SFS
#1 P/L-Norwalk	3	75	\$1,188,000	\$1,188,000	
#1 P/L- Santa Fe Springs	0.5	40	\$105,600		\$105,600
#1 P/L-Cerritos	3	200	\$3,168,000		
#1 P/L-Lakewood	2	10	\$105,600		
#1 P/L-Cypress	1	10	\$52,800		
#1 P/L-Los Alamitos	2	10	\$105,600		
#1 P/L-Long Beach**	9.5	N/A	\$500,000		
#1 P/L-SubTotal	21		\$5,225,600		
**Assumes 20 Pot holes @ \$25,000/hole totaling \$500,000					
#2 P/L-Norwalk	3	75	\$1,188,000	\$1,188,000	
#2 P/L-Santa Fe Springs	0.5	40	\$105,600		\$105,600
#2 P/L-SubTotal	3.5		\$1,293,600		
#4 P/L-Norwalk	4.7	150	\$3,722,400	\$3,722,400	
#4 P/L-Long Beach**	9.3	N/A	\$250,000		
#4 P/L-Other Cities	7	10	\$369,600		
#4 P/L-SubTotal	21		\$4,342,000		
Assumes 10 holes @ \$25,000/hole totaling \$250,000					
#9 P/L-Norwalk	2.8	75	\$1,108,800	\$1,108,800	
#9 P/L-Santa Fe Springs	0.7	40	\$147,840		\$147,840
#9 P/L-SubTotal	3.5		\$1,256,640		
#10-P/L-Santa Fe Springs	2.5	70	\$924,000		\$924,000
#10-P/L-Norwalk	1	75	\$396,000	\$396,000	
#10 P/L-SubTotal	3.5		\$1,320,000		
Inactive Lines-Norwalk	5.2	150	\$4,118,400	\$4,118,400	
Inactive Lines-SFS	4.2	100	\$2,217,600		\$2,217,600
Inactive Lines-Other	5.1	10	\$269,280		
Inactive Lines-SubTotal	14.5		\$6,605,280		
Grand Total	67		\$20,046,220	\$11,724,800	\$8,500,640

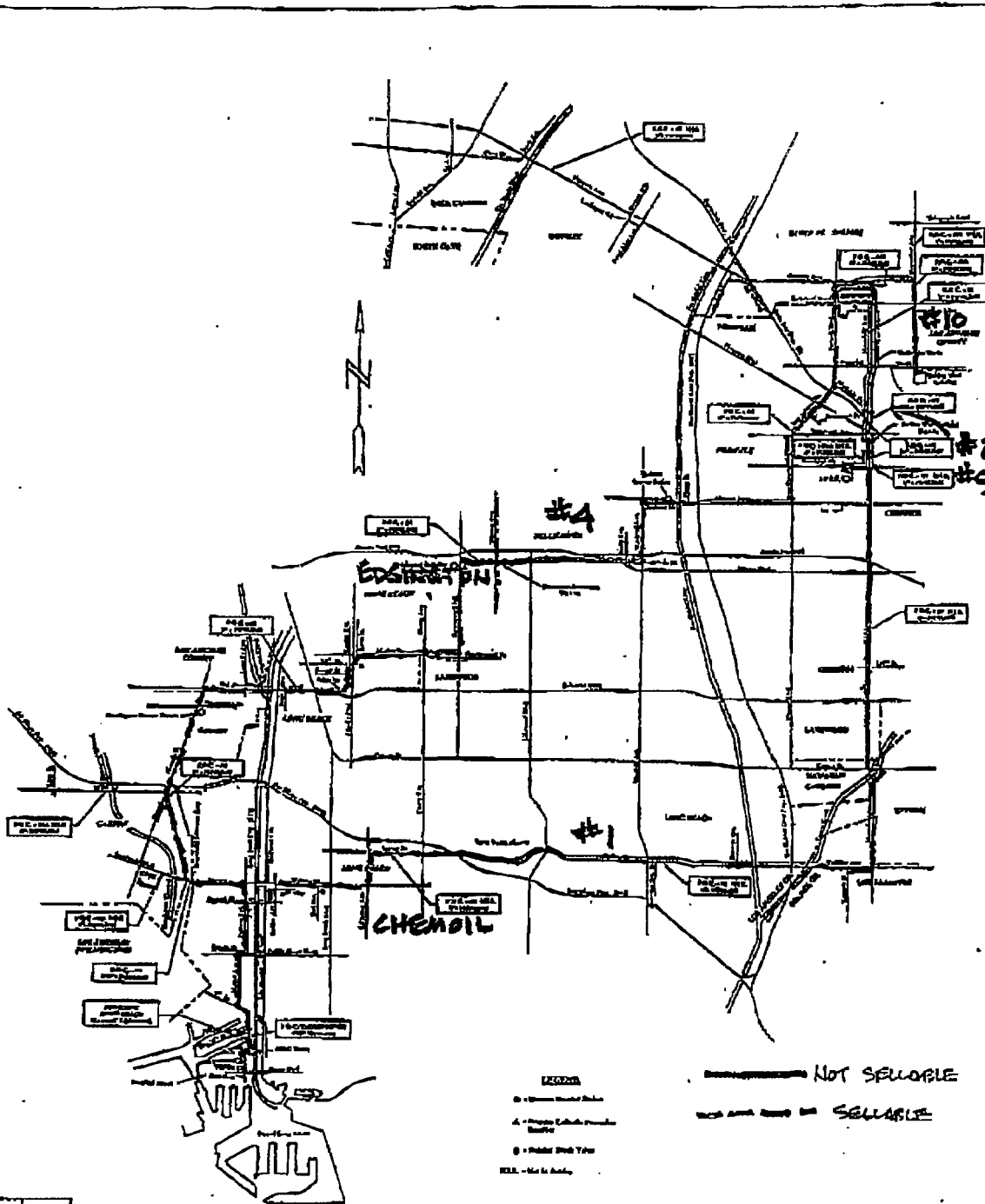
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saleable lines (3,300,240)

JUN. 19. 2006 11:08AM

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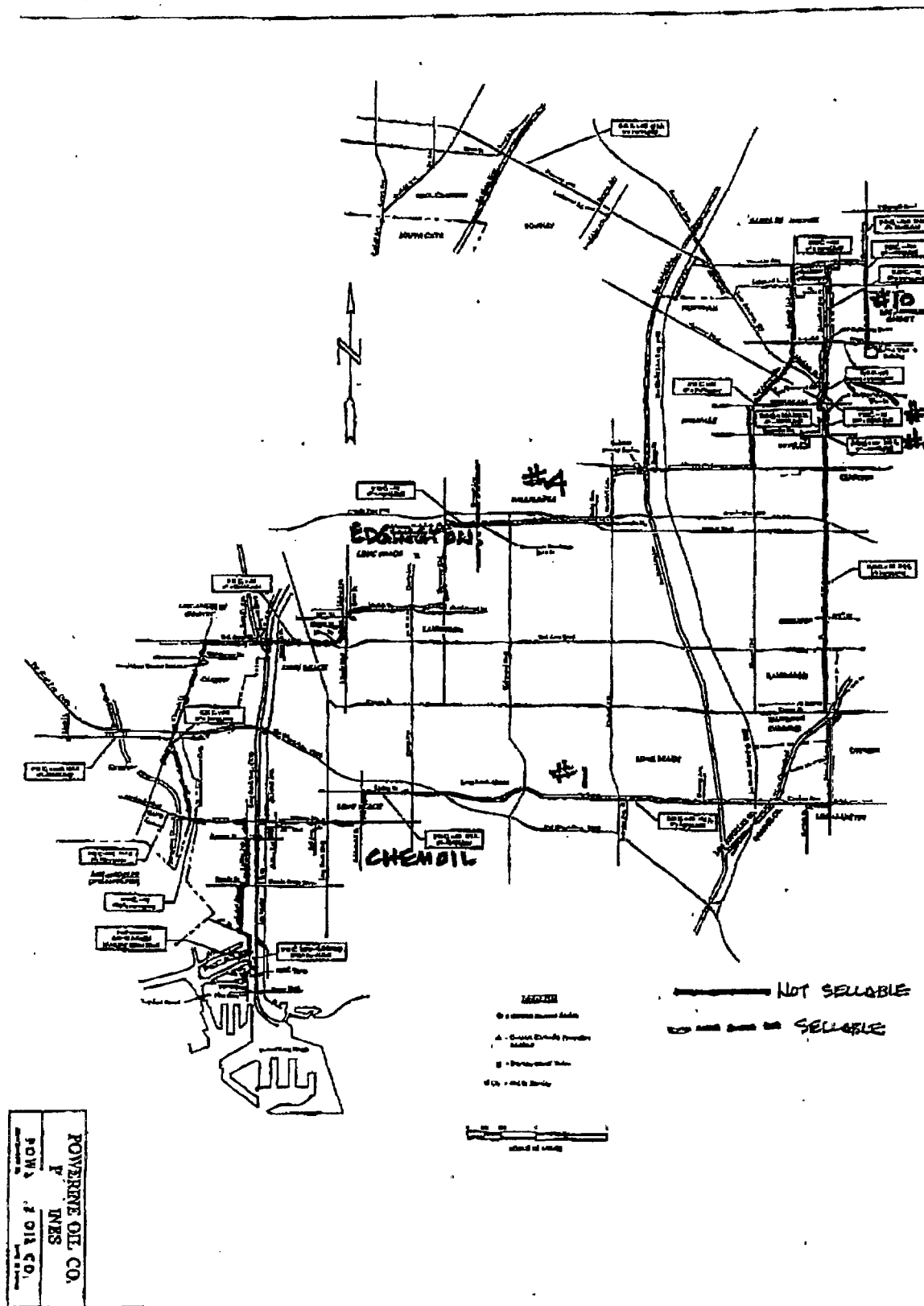
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POWERLINE OIL CO.
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JUN. 19. 2006-11:08AM MAIN OFFICE 5629038911

NO. 156 P. 14



06/28/2006 17:30 FAX 310 282 2200

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ATTACHMENT 3

JUN. 19. 2006 11:08AM

MAIN OFFICE 5629038911

NO. 156 P. 17, 2005

MIKE B.



December 17, 2002

Mr. Edward Sato
Ceneco Refining Company
12345 Lakeland Road
Santa Fe Springs, CA. 90670.
esato@cenecorefining.com

Re: Huntington Beach Marine Terminal Decommissioning Project

Sub: Estimated Project Costs

Dear Mr. Sato:

For our discussions of November 21, 2002, and telephone call this afternoon, following are estimated costs to conduct the environmental permitting and decommissioning of the 10-inch and 24-inch pipelines located at the above referenced marine terminal. These estimated costs are provided on behalf of American Pacific Constructors, Incorporated, Padie Associates Incorporated and Longitude 123.

First, please note that these costs are rough estimates based on very limited information. They will be revised after the site characterization work and scoping meetings are completed. The site characterization work gives us a much better picture of the conditions of the facility components and site. The scoping meetings give us a good idea what the agencies will expect in the way of decommissioning alternatives (i.e. can we cement and leave the onshore portion or do we have to take both lines out in their entirety). It is likely that the estimated costs would be revised again after the permitting is completed and any permit restrictions or conditions are known.

Second, because the project information is so limited at this time, many of the figures used to produce the following estimates are "plug" numbers. These numbers are based on past experience, but do not involve specific unit quantities or costs. These will be replaced with firm numbers as the project scope becomes firmer.

I've broken the cost into two basic areas. The first phase I've called "Permitting" and involves three sub-phases. The second phase I've called "Decommissioning" and is examined in two options. Note that at this time, I've limited the decommissioning work to two options which I believe are the most likely and probably cover a broad enough cost range to cover any other potential decommissioning option.

Also, I have attempted to provide a realistic cost range with a low figure and a high figure. But, bear in mind that these numbers are probably on the high side. We can't be more definite until we do the site characterization and meet informally with the agencies (scoping meetings).

Phase One - Permitting

This Phase One work would take place over a period of 9 to 12 months. This work would include, a comprehensive geophysical and bathymetric survey of the site that will serve as the baseline data, a diver survey to verify the data, production of a site map, production of a preliminary project description, scoping meetings with the agencies, production of a final project description, production of permit applications and representation throughout the permitting process. Not included in these figures are permitting fees or legal services, if necessary.

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MAIN OFFICE 5629038911

NO. 156 P. 18

Mr. Edward Sato
December 17, 2002
Page 2 of 2

	<u>LOW</u>	<u>HIGH</u>
Phase 1A - Site Characterization:	\$ 118,723.00	\$ 168,238.60
Phase 1B - Scoping Meetings:	\$ 30,125.00	\$ 40,328.75
Phase 1C - Permitting:	\$ 92,700.00	\$115,300.00
TOTALS:	\$241,548.00	\$321,868.25

Phase Two - Decommissioning

I've estimated the two most likely decommissioning options which are probably total removal of both pipelines, onshore and offshore, or cementing and abandonment in-place of both pipelines out to -15-ft. and removal of the offshore sections. In both cases, the estimates are very loose at this time and will be firmed up as we get a handle on things like burial depths of the pipeline, disposal requirements, volumes, accessibility, project timing in relationship to sea states, etc. Additional removal options may become obvious as the site characterization is performed and will be explored with the agencies in the scoping meetings. Obviously, the most advantageous method to Cenoco Refining would be the least costly option, all things considered. We will help you through the decision making logic and after the site characterization work and scoping meetings are completed.

	<u>LOW</u>	<u>HIGH</u>
Option #1 - Total Removal:	\$3,520,000.00	\$4,775,000.00
	or	
Option #2 - Cement Onshore/Total Removal Offshore	\$2,345,000.00	\$4,040,000.00...

I believe this information provides the detail you require at this time. Please let me know if you need additional information or have any questions. Please let me know if you are interested in pursuing the first phase and we will assemble a firm quotation with complete cost breakdowns. I should complete my BS-Tinked Bombax Pipeline Project no later than December 30, 2001 and will be back in the country shortly after. In the meantime, I am picking up my voice mail and checking my email several times a day.

Sincerely,

Mark Steffy

Mark Steffy
Longitude 123



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Date: June 28, 2006**Time:** 4:42 PM**To:** Karl Fingerhood
U.S. Department of Justice**Fax:** 202.514.2583
Phone: 202.514.7519**To:** Tali Jolish
Environmental Protection Agency**Fax:** 415.947.3570
Phone: 415.972.3953**From:** Albert Cohen
Personal ID: 10821
Client/Re: 071520-10002**Fax:** 310.919.3825
Phone: 310.282.2228**Pages (including Cover):** 19

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MESSAGE TO ADDRESSEE: